

## Message Text

LIMITED OFFICIAL USE

PAGE 01 MANAGU 03799 122233Z

ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 DODE-00 PA-01 PRS-01 AGRE-00 DHA-02 /086 W

-----006019 122325Z /61

P 121553Z AUG 77

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC PRIORITY 4034

LIMITED OFFICIAL USE MANAGUA 3799

E.O. 11652: N/A

TAGS: ECON, NU

SUBJECT: ECONOMIC ALERT REPORT

REF: (A) STATE 180067; (B) MANAGUA A-3 DTD 1/7/77; (C) MANAGUA 221;  
(D) MANAGUA 1506

1. THE FOLLOWING IS A BRIEF ANALYSIS AND PROJECTION OF NICARAGUA'S ECONOMY AS REQUESTED IN REF DEPTTEL.

A. MAJOR ECONOMIC PROBLEMS: (1) NICARAGUA HAS NO MAJOR, IMMEDIATE ECONOMIC PROBLEMS, AND ITS CURRENT ECONOMIC SITUATION IS GOOD (-3). THERE IS, THOUGH, EXCESSIVE LIQUIDITY IN THE BANKING SYSTEM WHICH PUBLIC AND PRIVATE SPENDING AND INVESTMENT ARE NOT ABSORBING. THE CONSTRUCTION INDUSTRY REMAINS DEPRESSED AND THERE HAS BEEN RELATIVELY LITTLE NEW PRIVATE FOREIGN INVESTMENT DESPITE VERY FAVORABLE INCENTIVES. ACCORDING TO CONFIDENTIAL CENTRAL BANK ESTIMATES, NICARAGUA'S FOREIGN DEBT SHOULD REACH \$825 MILLION BY THE END OF 1977 (UP FROM \$677 MILLION AT END OF 1976) OWING MAINLY TO DRAWDOWNS FROM LOANS CONTRACTED OVER THE PAST TWELVE MONTHS. DEBT SERVICING DURING 1977 (\$110 MILLION) WILL AMOUNT TO ABOUT 14 PERCENT OF PROJECTED EXPORTS OF GOODS AND SERVICES FOR THE YEAR. (NONETHELESS, NICARAGUA WILL PROBABLY NOT EXPERIENCE A SERIOUS DEBT SERVICING "CRUNCH" UNTIL 1979-80.)

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANAGU 03799 122233Z

(2) THE MOST IMMEDIATE ECONOMIC-RELATED CONCERN FOR THE U.S., HOWEVER, IS NOT THE RELATIVE GOOD HEALTH OF NICARAGUA'S DEVELOPING ECONOMY BUT RATHER IT IS THE GON'S APPARENTLY DELIBERATE POLICY TO DIVERT MUCH OF ITS OFFICIAL PROCUREMENT AWAY FROM THE U.S. WHICH HAS BEEN THE TRADITIONAL, PRINCIPAL SUPPLIER OF GOODS AND SERVICES. THIS POLICY SEEMS TO BE BASED, AT LEAST IN PART, ON RESENTMENT ABOUT THE USG'S HUMAN RIGHTS STANCE VIS-A-VIS NICARAGUA, ABOUT

U.S. ARMS POLICIES (MANAGUA 1506) AND ABOUT EXIMBANK'S PERCEIVED NON-RESPONSIVENESS TO GON LOAN REQUESTS (76 MANAGUA 4227).  
B. ECONOMIC OUTLOOK FOR THE NEXT TWELVE MONTHS: THE LATEST PROGNOSIS FOR THE REST OF 1977 IS GOOD OWING LARGELY TO HIGH PRICES FOR COFFEE, COTTON AND BEEF AND TO GOOD INITIAL RAINS IN THE IMPORTANT WESTERN CROP LANDS DURING THE CURRENT RAINY SEASON. THE GON HAS ALSO BEEN SUCCESSFUL THUS FAR IN CONTROLLING THE SPREAD OF COFFEE RUST WHICH THREATENS THAT MAJOR CROP. ABOVE AVERAGE EXPORT EARNINGS AND DRAWDOWNS FROM FOREIGN LOANS SHOULD ENABLE NICARAGUA TO DOUBLE ITS NET INTERNATIONAL RESERVES DURING 1977, ACCORDING TO OFFICIAL SOURCES, TO SOME \$112 MILLION. PROSPECTS FOR THE FIRST HALF OF 1978 MAY NOT BE SO ROSY, HOWEVER, AS THERE ARE ALREADY SIGNS THAT COFFEE AND COTTON PRICES ARE FALLING.

C. CRITICAL POINTS: THE FOLLOWING ARE SOME CRITICAL POINTS WHICH COULD ADVERSELY AFFECT NICARAGUA'S GENERALLY BRIGHT ECONOMIC PROSPECTS FOR NEXT TWELVE MONTHS: (1) PRESIDENT SOMOZA SUFFERED A HEART ATTACK ON JULY 24. SHOULD HE DIE OR BE FORCED TO RETIRE FROM OFFICE, PUBLIC CONFIDENCE IN THE ECONOMY MIGHT BE SORELY TESTED.

(N.B. WE HAVE NOT YET NOTED ANY SIGNIFICANT FLIGHT OF CAPITAL FROM NICARAGUA SINCE HIS ILLNESS BUT HAVE NOTED THAT THE GON HAS BEEN STRIVING DILIGENTLY IN RECENT DAYS TO SHORE UP CONFIDENCE IN ITS CURRENCY, THE CORDOBA.)

(2) WEATHER: A RECURRENCE OF SEVERE DROUGHT WOULD LESS YIELDS FROM COTTON, GRAIN AND OTHER CROPS AND MIGHT ALSO OCCASION ANOTHER SERIOUS ENERGY SHORTAGE SUCH AS AFFLICTED THE NATION EARLIER THIS YEAR (MANAGUA 221).

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03     MANAGU 03799 122233Z

(3) WORLD MARKET PRICES: SHARP DROPS IN COFFEE AND COTTON PRICES, IF NOT COMPENSATED FOR BY RISES IN PRICES FOR OTHER EXPORT COMMODITIES, WOULD HARM NICARAGUA'S ECONOMIC PROSPECTS. SHARP INCREASES IN PRICES FOR OIL OR OTHER VITAL IMPORTS COULD ALSO MAR THE ECONOMIC PICTURE.

(4) COFFEE RUST: SHOULD THE GON FAIL TO COPE WITH THIS BLIGHT, ECONOMIC PROSPECTS FOR 1978 AND BEYOND WILL UNDOUBTEDLY BE DIMINISHED SOMEWHAT. HOWEVER, GON EFFORTS IN COMBATTING RUST HAVE BEEN QUITE EFFECTIVE THUS FAR.

RUBENSTEIN

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 12-Aug-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977MANAGU03799  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770291-0850  
**Format:** TEL  
**From:** MANAGUA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770868/aaaacfau.tel  
**Line Count:** 104  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** d051755b-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 STATE 180067, 77 MANAGUA A-3, 77 MANAGUA 221, 77 MANAGUA 1506  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 31-Mar-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 1619223  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC ALERT REPORT  
**TAGS:** ECON, NU  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/d051755b-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009